

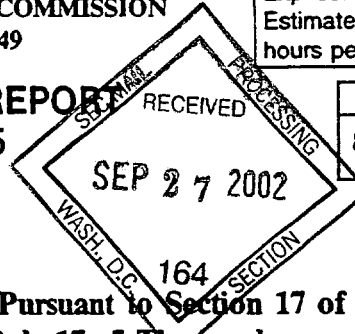


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SECURITIES AND COMMISSION  
Washington, D.C. 20549

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ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III



SEC FILE NUMBER
8 34954

FACING PAGE  
Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 8/1/01 AND ENDING 7/31/02  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Thomas M. Nixon & Associates, Inc.

OFFICIAL USE ONLY
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

4775 Wallingford Street  
(No. and Street)

Pittsburgh  
(City)

PA  
(State)

15213-1711  
(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Thomas M. Nixon

(412) 621-6600  
(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Edwards Sauer & Owens

(Name — if individual, state last, first, middle name)

500 Warner Center, 332 Fifth Avenue, Pittsburgh, PA 15222

(Address)

(City)

(State)

Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

P OCT 11 2002

THOMSON  
FINANCIAL

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

## OATH OR AFFIRMATION

I, Thomas M. Nixon, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Thomas M. Nixon & Associates, Inc., as of July 31, 2002, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Notarial Seal  
Debra A. Warfield, Notary Public  
City Of Pittsburgh, Allegheny County  
My Commission Expires Feb. 9, 2006  
Member, Pennsylvania Association Of Notaries

Thomas M. Nixon  
Signature

President  
Title

Debra A. Warfield  
Notary Public

This report\*\* contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**THOMAS M. NIXON & ASSOCIATES, INC.**

**FINANCIAL STATEMENTS**

**JULY 31, 2002**

# FINANCIAL STATEMENTS

THOMAS M. NIXON & ASSOCIATES, INC.

July 31, 2002

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# EDWARDS SAUER & OWENS

## Certified Public Accountants & Business Advisors

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500 Warner Centre, 332 Fifth Avenue, Pittsburgh, PA 15222  
Phone: 412-281-9211 Fax: 412-281-2407  
www.esocpa.com

A Professional Corporation  
Direct Dial:

### INDEPENDENT AUDITORS' REPORT

To the Stockholder  
Thomas M. Nixon & Associates, Inc.  
Pittsburgh, Pennsylvania

We have audited the accompanying statement of financial condition of Thomas M. Nixon & Associates, Inc. as of July 31, 2002 and the related statements of loss, changes in stockholder's equity and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under The Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Thomas M. Nixon & Associates, Inc. as of July 31, 2002 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the supplementary schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of The Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Edwards Sauer & Owens*

Pittsburgh, Pennsylvania  
August 23, 2002

# STATEMENT OF FINANCIAL CONDITION

THOMAS M. NIXON & ASSOCIATES, INC.

July 31, 2002

## ASSETS

### Current Assets

Cash	\$ 43,417
Cash - money markets	99,495
Good faith deposit	5,000
Commissions receivable	16,347
Prepaid expenses	5,226
Deferred income taxes	6,112
Shareholder advances	<u>977</u>

Total current assets 176,574

### Property and Equipment

Equipment	39,917
Furniture and fixtures	12,538
Automobile	<u>14,742</u>
	67,197
Less: Accumulated depreciation	<u>(59,561)</u>

7,636

### Other Assets

Membership deposit	<u>1,800</u>
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Total Assets \$ 186,010

The accompanying notes are an integral part of these financial statements.

# STATEMENT OF FINANCIAL CONDITION

THOMAS M. NIXON & ASSOCIATES, INC.

July 31, 2002

## LIABILITIES AND STOCKHOLDER'S

### Current Liabilites

Accounts payable	\$ 1,919
Accrued commissions	5,670
Accrued payroll taxes and other liabilities	62,321
Income taxes payable	<u>14,502</u>

Total current liabilites 84,412

### Stockholder's Equity

Common stock - par value \$1 per share, 1,000 shares authorized, 601 shares issued of which 1 is held in treasury	601
Additional paid-in capital	68,366
Retained earnings	<u>34,243</u>

Less: Treasury stock, at cost 1,612

Total stockholder's equity 101,598

**Total Liabilities and Stockholder's Equity** \$ 186,010

The accompanying notes are an integral part of these financial statements.

# **STATEMENT OF LOSS**

**THOMAS M. NIXON & ASSOCIATES, INC**

**Year Ended July 31, 2002**

## **REVENUES**

Commission Income	\$ 595,379
Interest Income	2,646
Miscellaneous Income	<u>5,661</u>
	603,686

## **OPERATING EXPENSES**

Selling	127,941
General and Administrative	<u>527,741</u>
	<u>655,682</u>

<b>Net Loss before taxes</b>	<b>(51,996)</b>
------------------------------	-----------------

## **PROVISION FOR INCOME TAXES**

Current	13,058
Deferred	<u>(11,671)</u>
	<u>1,387</u>

<b>Net Loss</b>	<b><u>\$ (53,383)</u></b>
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The accompanying notes are an integral part of these financial statements.

# STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

## THOMAS M. NIXON & ASSOCIATES, INC

Year Ended July 31, 2002

### COMMON STOCK

Balance at August 1, 2001 and July 31, 2002	<u>\$ 601</u>
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### ADDITIONAL PAID-IN-CAPITAL

Balance at August 1, 2001 and July 31, 2002	<u>\$ 68,366</u>
---	------------------

### RETAINED EARNINGS

Balance at beginning of year	\$ 87,626
Net loss for the year ended July 31, 2002	<u>(53,383)</u>

Balance at end of year	<u>\$ 34,243</u>
------------------------	------------------

### ACCUMULATED OTHER COMPREHENSIVE INCOME

Balance at beginning of year	\$ (99,060)
Reclassification adjustment for net unrealized loss on available-for-sale securities	662
Reclassification adjustment for funding of minimum pension liability, net of deferred tax	<u>98,398</u>

Balance at end of year	<u>\$ 0</u>
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### TREASURY STOCK

Balance at August 1, 2001 and July 31, 2002	<u>\$ 1,612</u>
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The accompanying notes are an integral part of these financial statements.

## STATEMENT OF CASH FLOWS

### THOMAS M. NIXON & ASSOCIATES, INC

Year Ended July 31, 2002

#### CASH FLOWS FROM OPERATING ACTIVITIES

Net Loss	\$ (53,383)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization	3,558
Gain on sale of investments	(5,661)
Deferred taxes	(11,672)
Decrease (increase) in cash due to changes in assets and liabilities:	
Good faith deposit	563
Accounts receivable	(8,189)
Prepaid expenses	8,563
Prepaid pension costs	63,328
Refundable-payroll taxes	1,438
Accounts payable	(5,968)
Accrued commissions	1,620
Accrued payroll taxes and other liabilities	62,321
Income taxes payable	<u>5,334</u>

**Net Cash Provided By Operating Activities** 61,852

#### CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of fixed assets	(3,897)
Proceeds from sale of investments	<u>17,421</u>

**Net Cash Provided By Investing Activities** 13,524

#### CASH FLOWS FROM FINANCING ACTIVITIES

Advances to shareholders	(303,135)
Repayment of shareholder advances	<u>302,158</u>

**Net Cash Used In Financing Activities** (977)

**Net Change in Cash and Cash Equivalents** 74,399

**Cash and Cash Equivalents at Beginning of Year** 68,513

**Cash and Cash Equivalents at End of Year** \$ 142,912

The accompanying notes are an integral part of these financial statements

## STATEMENT OF CASH FLOWS

THOMAS M. NIXON & ASSOCIATES, INC

Year Ended July 31, 2002

### SUPPLEMENTAL DISCLOSURES

Cash payments for  
Income taxes

\$ 7,724

### NON-CASH TRANSACTIONS

Deferred tax benefit realized on sale of available  
for sale security

\$ 220

Deferred tax benefit realized on funding of  
defined benefit plan

\$ 30,084

Reclassification of change in market value due to  
sale of available for sale security

\$ 882

The accompanying notes are an integral part of these financial statements

## NOTES TO FINANCIAL STATEMENTS

### THOMAS M. NIXON & ASSOCIATES, INC.

Year Ended July 31, 2002

#### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

**Nature of Operations:** Thomas M. Nixon & Associates, Inc. (The Company) is incorporated under the laws of the Commonwealth of Pennsylvania and acts as a broker-dealer in connection with the offer and sale of securities, and engages in investment activities. The Company primarily services customers located in Western Pennsylvania.

**Use of Estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Revenue and Cost Recognition:** The Company uses the accrual method of accounting. Revenue is primarily from commissions from the sale of securities and is recognized as earned. Selling, and general and administrative costs are charged to expense as incurred.

**Property and Equipment:** Equipment, furniture & fixtures and automobile are carried at cost. Depreciation is principally calculated by the straight-line method for financial reporting purposes based on the estimated useful lives of the assets. For income tax purposes, depreciation is computed using accelerated methods. Depreciation expense for the year ended July 31, 2002 was \$3,558.

**Advertising:** Advertising costs, which are principally included in sales expenses, are expensed as incurred. Advertising expenses was \$300 for the year ended July 31, 2002.

**Cash Equivalents:** For purpose of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There are no cash equivalents at July 31, 2002.

**Income Taxes:** For income tax reporting purposes, the Company uses the cash basis method of accounting whereby income is recognized when received and expenses are recognized when paid.

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

#### NOTE 2 – INCOME TAXES

The deferred tax asset for the year ended July 31, 2002 was primarily due to the use of the accrual basis for financial statement presentation and the cash basis for tax purposes of \$6,112.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### THOMAS M. NIXON & ASSOCIATES, INC.

Year Ended July 31, 2002

#### NOTE 3 – NET CAPITAL REQUIREMENT

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. As of July 31, 2002, the Company had net capital of \$57,484, which was \$52,484 more than the required minimum net capital of \$5,000. The ratio of aggregate indebtedness to net capital was 1.47 to 1.

#### NOTE 4 – SEC RULE 15c3-3 CUSTOMER PROTECTION – RESERVES AND CUSTODY OF SECURITIES

Thomas M. Nixon & Associates, Inc. does not carry securities accounts for customers or perform custodial functions relating to customer securities and clears all transactions for customers with a clearing broker. Therefore, the Company is claiming an exemption to SEC Rule 15c3-3 under exemption (k)(2)(ii).

#### NOTE 5 – CONCENTRATIONS

Approximately 95% of revenue was generated by selling investments in natural gas limited partnerships. Cash deposits exceed federally insured limits \$45,751 at July 31, 2002.

#### NOTE 6 – TRANSACTIONS WITH RELATED PARTIES

The Company rents office space located at 4775 Wallingford Street, Pittsburgh, Pennsylvania from the stockholder under a 5-year operating lease commencing April 1, 1998 at \$2,500 per month. The lease is renewable for an additional 5 years at \$2,625 per month. Rent expense for the year ended July 31, 2002 under this lease was \$30,000. Future minimum lease payments for the next five years and in the aggregate are:

2003	\$ 20,000
2004	—
2005	—
2006	—
2007	—
	<u>\$ 20,000</u>

#### NOTE 7 – INVESTMENTS

Details of the sales of the available for sale securities are as follows:

Gross proceeds	\$ 17,421
Fair value July 31, 2001	(10,878)
Loss reclassified from accumulated other comprehensive income, including deferred tax benefit of \$220	(882)
Gain on sale of securities	<u>\$ 5,661</u>

The gain on the sale of available for sale securities is included in miscellaneous income on the statement of loss.

## **NOTES TO FINANCIAL STATEMENTS**

### **THOMAS M. NIXON & ASSOCIATES, INC.**

**Year Ended July 31, 2002**

#### **NOTE 8 – EMPLOYEE BENEFIT PLAN**

During the year ended July 31, 2001, the Company terminated its defined benefit plan. As a result of the plan's termination, the Company recognized pension expense of \$165,265 in its statement of loss during the year.

In addition, during the year ended July 31, 2002, the Company established a tax-sheltered annuity plan under Internal Revenue Code Section 401(k). The plan accepts employee and employer contributions. Employer contributions can not exceed 25% of eligible gross salaries. Employer contributions to the 401(k) plan of \$29,000 are included in accrued payroll taxes and other liabilities at July 31, 2002.

## **SUPPLEMENTARY SCHEDULES**

**SCHEDULE I--COMPUTATION OF AGGREGATE INDEBTEDNESS AND NET CAPITAL IN  
ACCORDANCE WITH RULE 15C3-1 UNDER THE SECURITIES EXCHANGE ACT OF 1934**

**THOMAS M. NIXON & ASSOCIATES, INC**

**July 31, 2002**

**AGGREGATE INDEBTEDNESS**

Accounts payable	\$ 1,919
Accrued commissions	5,670
Accrued payroll taxes and other liabilities	62,321
Income taxes payable	<u>14,502</u>
	<u><u>\$ 84,412</u></u>

**NET CAPITAL**

Stockholder's equity	\$ 101,598
Deductions:	
Cash - good faith deposit	5,000
Commissions receivable (non-allowable portion)	16,347
Prepaid expenses	5,226
Property and equipment, net of accumulated depreciation	7,636
Membership deposit	1,800
Haircuts on proprietary positions and commitments	1,990
Deferred income taxes	<u>6,112</u>
	<u><u>\$ 57,487</u></u>

**CAPITAL REQUIREMENT**

Minimum net capital requirement	\$ 5,000
Net capital in excess of requirement	<u>52,487</u>

**NET CAPITAL AS ABOVE**

\$ 57,487

**RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL**

1.47 to 1

There is approximately \$3,000 difference between this computation of net capital and the corresponding computation prepared by Thomas M. Nixon & Associates, Inc. and included in the unaudited Part II Focus Report filing as of the same date. The difference is primarily due to audit adjustments as follows:

Net Capital per unaudited Part II Focus Report filed as of July 31, 2002	\$ 54,401
Accrued commissions	(5,671)
Income taxes	(6,302)
Deferred income taxes	16,072
Haircuts on money market accounts	(1,990)
Shareholder advances	<u>977</u>
Audited net capital	<u><u>\$ 57,487</u></u>

## **SCHEDULE II – SELLING, AND GENERAL AND ADMINISTRATIVE EXPENSES**

**THOMAS M. NIXON & ASSOCIATES, INC.**

**July 31, 2002**

### **SELLING EXPENSES**

Commissions	\$ 105,138
Advertising	300
Sales seminars	3,670
Auto	2,448
Licenses, permits and fees	7,869
Quote service	738
Postage	2,242
Telephone	2,769
Travel and entertainment	<u>2,767</u>
	<u>\$ 127,941</u>

### **GENERAL AND ADMINISTRATIVE**

Officers and salaries	\$ 204,557
401K contributions	29,000
Bank service charges	1,040
Contributions	1,035
Depreciation	3,558
Dues and subscriptions	8,471
Equipment rental	702
Insurance	5,950
Pension expense	165,265
Professional fees	61,971
Miscellaneous	759
Office	3,030
Rent	30,000
Supplies	2,665
Payroll taxes	9,250
Other corporate taxes	<u>488</u>
	<u>\$ 527,741</u>

## **REPORT ON INTERNAL CONTROL STRUCTURE**

To The Stockholder  
Thomas M. Nixon and Associates, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of Thomas M. Nixon and Associates, Inc. (the Company), for the year ended July 31, 2002, we considered its internal control structure, including procedures for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by Rule 17a-5(g)(1) of the Securities Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by Rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure, including procedures for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at July 31, 2002, to meet the SEC's objectives.

This report is intended solely for the information and use of management, the SEC, the National Association of Securities Dealers, Inc. and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*Edward Sauer & Owens*

Pittsburgh, Pennsylvania  
August 23, 2002